Headquarters U.S. Air Force

Integrity - Service - Excellence

AF Housing Privatization Policy and Lessons Learned Workshop

Dormitory Privatization

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HQ USAF/ILEHM
7 Nov 02

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Agenda

- Authority to Privatize Dormitories
  - Additional Introduced Legislation
- Dormitory Privatization Feasibility Study 1997
- Army/Navy Dormitory Privatization Programs
- Dormitory Privatization IPT August 2002
- CSAF Vector
- What's Next

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Authority to Privatize Dormitories

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Authority

- **1996 Defense Authorization Act**
  - **S 2872. General Authority**
    "…the Secretary concerned may exercise any authority…to provide for the acquisition or construction [of]…military unaccompanied housing units on or near such military installations."
  - **Same authorities available as Housing Privatization**
    Direct Loans Loan Guarantees
    Leasing of Housing Investments in Non-Gov Entities
    Rental Guarantees Differential Lease Payments
    Interim Leases Ancillary Support Facilities
    Assignment of Members to Housing Units/Allotments
    Conveyance/Lease of Existing Property and Facilities

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Higher Rate of Partial BAH

- Legislative language introduced by the Senate in the National Defense Authorization Act for FY2003
  - As a result of the Navy interest in Dorm Privatization
- Authorizes OSD to pay unaccompanied members in privatized housing higher rates of partial BAH
  - Partial rate authorized under Title 37, section 403(n)
  - Members are treated as living in government quarters for while being paid the higher rate of partial BAH
- Also allows the AF to pay BAH directly to developer on behalf of the member for privatized rent purposes

Offers additional financial flexibility!

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Dormitory Privatization Feasibility Study 1997

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Dormitory Feasibility Study 1997 - Constraints

- Completed in May 1997
  - "Should the AF pursue privatization of dormitories?"
  - Study narrowed to "Is it feasible?"
- Constraints
  - Satisfy E-1 through E-4 requirement only
  - Dorm Management would not be privatized
  - New/renovated units must meet/exceed "1+1" criteria
  - No out of pocket costs for occupants
  - Assess each base separately (no joint/MAJCOM combinations)
  - Sited on base in the dormitory area per BGP
  - Within US states & territories only

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Dormitory Feasibility Study 1997 - Proforma Assumptions

- Privatization Developer shall operate, maintain, and improve all of the base's dormitory assets
- All rooms are single-occupancy, regardless of rank
- Developer may desire to build market-type, apartment-style units, most likely two-bedroom apartment type facilities
- Rents equal BAQ and VHA (BAH) housing allowances for the two individuals occupying a two-bedroom apartment
- Units under completion/renovation are not available to generate income until after project completion
- Initial furniture costs in new or renovated units are included as part of the "Development Cost"

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Dormitory Feasibility Study 1997 - Feasibility

- **Feasibility factors**
  - **Must be attractive enough to industry to generate proposals**
  - **Must have a privatization life-cycle cost lower than the traditional method (MILCON and O&M accounts) and be acceptable to Air Force leadership**
- **Eight bases considered as possible candidates**
  - **Davis-Monthan AFB Dover AFB**
  - **Hurlburt Field AFB Los Angelos AFB**
  - **Langley AFB MacDill AFB**
  - **Offutt AFB Tinker AFB**

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Dormitory Feasibility Study 1997 - Feasibility

- Candidates screened using weighted methodology
  - A good business case (Development Budget Gap =0)
  - Provide customer benefit (# of inadequate quarters and total deficit)
  - Investor interest (is it severable and adjacent to base perimeter?)
- Selected candidates represented a wide range of success potential
  - Tinker AFB – Low market rents, large deficit (59% of total requirement), significant number of rooms requiring renovation or replacement (41%)
  - Dover AFB – 2nd highest market rents, low deficit (12% of total requirement), few number of rooms requiring renovation or replacement (5%)

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Dormitory Feasibility Study 1997 - Feasibility

- Site visits conducted at both locations
- IRR and Life cycle costs generated
  - 50-year construction and renovation program
  - Utility costs were included
  - Costs include government contract liaison
  - AF retains tenant supervision / management

	Attractive to Industry?	*Life Cycle Cost Analysis*	
Dover AFB	IRR 19.1%	Privatization	$132.5M
		MILCON	$110.5M
Tinker AFB	IRR 17.5%	Privatization	$163.7M
		MILCON	$205.7M

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Dormitory Feasibility Study 1997 - Conclusions

- Privatization of dormitories appears more suitable for bases with degraded facilities, a high deficit, available/severable land, a slow local economy, committed local support, & high installation support
- Privatization should augment normal MILCON
- Policy Issues
  - Treatment of utility costs
  - Jurisdiction of the military (rights of entry)
  - AF ability to lease privatized units as a whole
- Developer Issues
  - Severability of dorm complex from base proper
  - Occupancy guarantees to obtain financing

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Dormitory Feasibility Study 1997 - Recommendations

- Pursue delivery of a dormitory privatization venture at one base to further define the concept
  - Incorporate industry forum for broader input
- Conduct screening of remaining projects to develop a list of projects with higher privatization potential
- Resolve the policy issues
- Study the impact of separating the conveyed facilities and land from the base's property (forced severability)

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Army/Navy Dormitory Privatization Programs

Army Approach

- The Army has three pilot programs underway to test their version of barracks privatization
  - Fort Irwin (200 units of unaccompanied officer / senior enlisted housing)
  - Defense Language Institute, Presidio of Monterrey (1,800 units of training and permanent party barracks)
  - Fort Hood (5,500 units of barracks, unaccompanied officers and NCOs)
- Due Diligence (Feasibility) study started at the DLI on 5 Aug 02

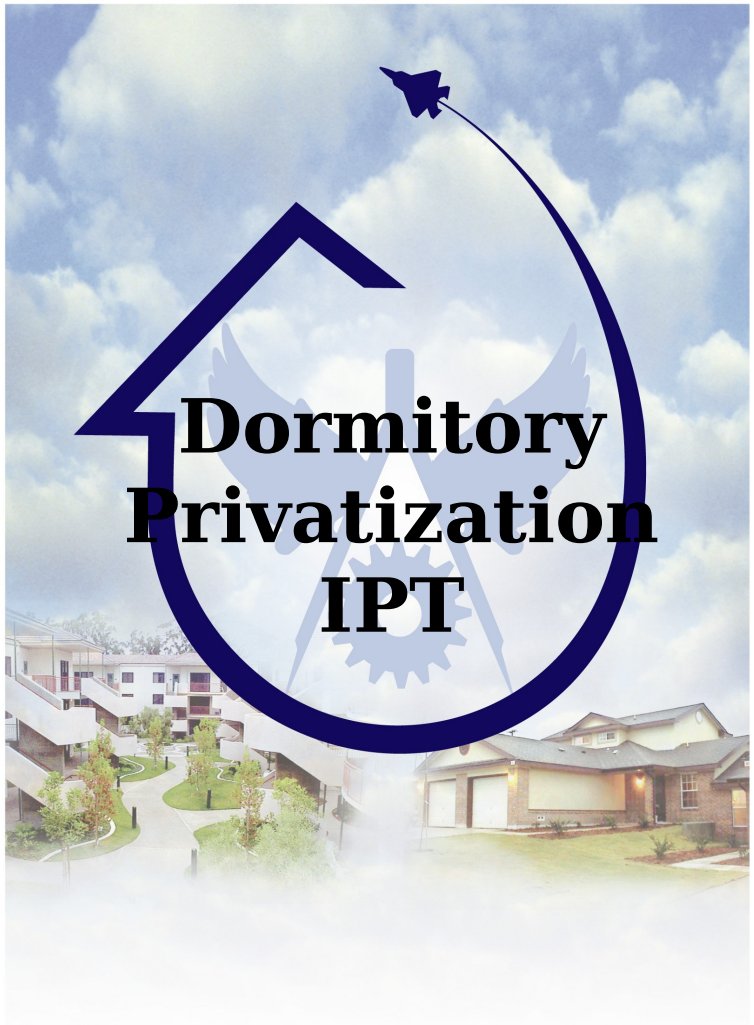
Navy Approach

- Upper management optimistic that Dormitory Privatization will provide a sustainable medium for suitable housing
  - BAH cost for troops provides sustainable revenue
  - Not necessarily cheaper, but faster!
- Three pilot programs in the works
  - Camp Pendleton
  - Quantico (Officer Training Quarters)
  - Norfolk Naval Station (E1-E3 between ship tours)
    - Turn over all existing dormitories
    - Build 3000 additional units (1 + 1)

Navy Approach (Issues/Concerns)

- BAH projected requirement: 75% BAH per occupant
  - Pending legislation authorizing higher partial BAH
  - SHOWSTOPPER for current pilot programs!
- Navy preference for high-rise housing facilities
  - Pre-empts use of “stick-built”; high construction cost
  - Necessary due to lack of inhabitable space
- Walking proximity to pier location
  - Walking distance preferred; not desirable to provide additional parking around pier area
- Priority list if occupancy rate not maintained
- Rotational units: retain rooms while deployed?
  - Standard rotation is 12 months shore, 6 months at sea
  - No authority to pay shipboard E1-E3s BAH - SHOWSTOPPER

Dormitory Privatization IPT
August 2002



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Privatization
Dorm Privatization SSS Response

"IL - we should first formulate a policy that satisfies us with regard to squadron integrity, oversight, inspections, etc. Then we should pick a place and test the water. Phase 2 could be a deeper plunge. Work it with the MAJCOMs and come back to me and the SECAF. See no reason not to share this with rest of the team. JJ."

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Dormitory Privatization IPT

- IPT held 13-14 Aug 02
- Purpose
  - Establish a baseline for Dormitory Privatization
  - Revalidate privatization as a feasible tool
  - Define parameters for a pilot project
- Attended by:
  - Air Staff
  - MAJCOMs
  - Bases
  - Command Chief representative
  - First Sergeant representative

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Privatization Project "Must-Have" List

- Transparent to the member and Commanders
  - Should resemble conventional dormitories
- AF retain control of dormitory residents
  - Unit integrity
  - Squadron CC and First Sergeant involvement
- Will meet minimum standards of new Design Guide
  - Square footage
  - Functional requirements

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Privatization Project "Nice-to-Have" List

- **Potential to increase dormitory quality of life!**
  - **Additional SF beyond the design guide minimum**
  - **Covered parking**
  - **Sports/recreational areas**
  - **Basic cable and high speed Internet to rooms at no cost to occupant**
- **Items to be worked out with functional counterparts**

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Privatization Project Issues

- Maintaining the occupancy rate
  - Unit Integrity
  - Waterfall list
  - Partial BAH rate
- Individual versus AF group lease
  - Resident control
  - Mandatory individual lease signing?
- New FY03 Legislation introduced by Senate
  - OMB interpretation of new legislation

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Privatization
MAJCOM Provided Candidates

- MAJCOMs asked to provide possible candidates
- PACAF nominated Elmendorf
  - Very successful housing privatization program
  - Met the criteria recommended at the IPT
- MAJCOMs had many concerns
  - Legal concerns - resident control
  - Many MAJCOMs and bases already busy working MFH privatization issues
  - Lack of appropriate candidates

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Privatization Bottom Line and Vector Check

- **Bottom Line:**
  - **Appears feasible**
  - **We have MAJCOM interest**
  - **IPT working to resolve major issues**

- **Take to CSAF for Vector Check**
  - **Should we continue to pursue?**
  - **Can we use Elmendorf as out pilot project?**

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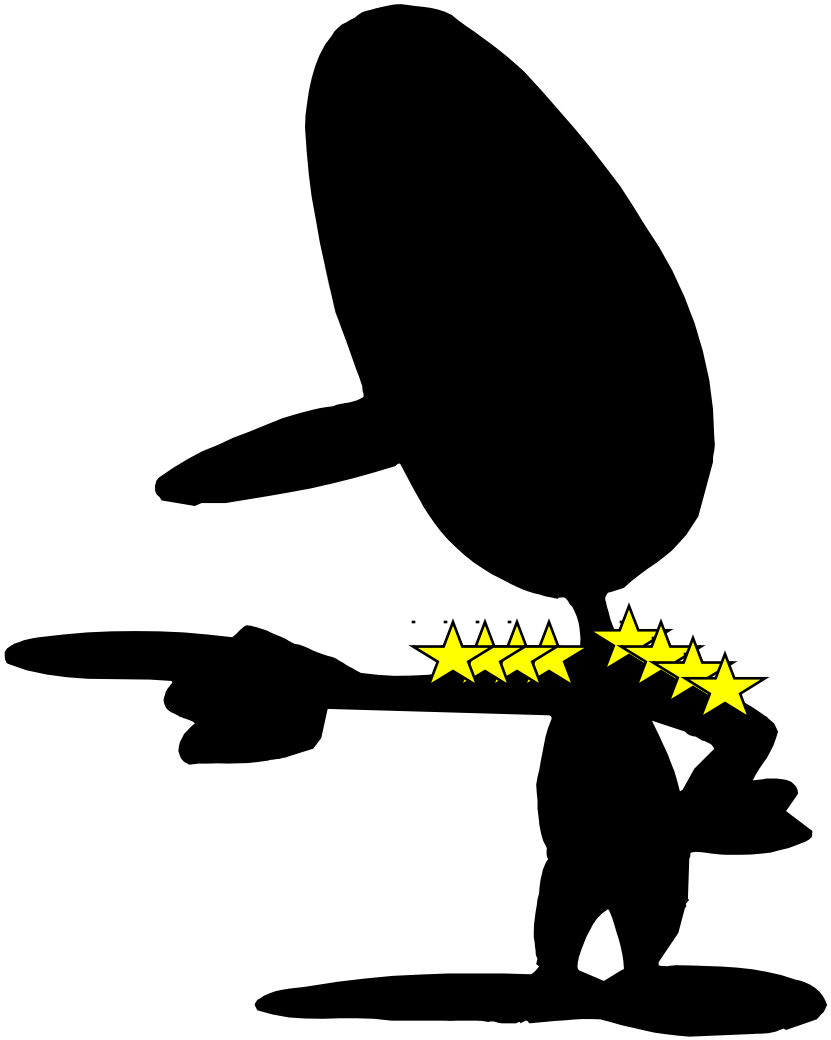
CSAF Vector

23
Oct



CSAF Vector

- ***Should we continue to pursue?***
  - **YES – PROCEED WITH DORMITORY PRIVATIZATION**
  - **WE NEED TO PUT TOGETHER A SUCCESSFUL EXAMPLE AND THEN HAVE EVERYONE GO LOOK AT IT**
  - **WE MUST HAVE A MODEL PROGRAM**
  - **CMSAF WILL TEE THIS ISSUE UP AT CORONA**

- ***Can we use Elmendorf as our pilot project?***
  - **YES - PRESS WITH ELMENDORF AS THE PILOT LOCATION**

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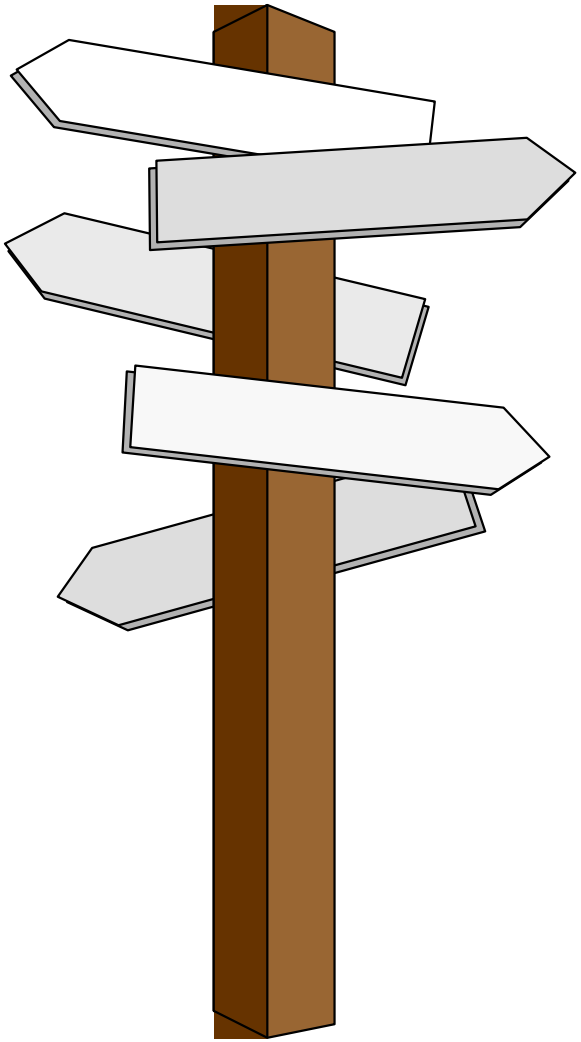
What's Next



ELMENDORF
AFB
DORMITORY
PRIVATIZATION
PROJECT 1
MILE

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What's Next

- **Designate Elmendorf as the pilot project location**
  - **Official notification to MAJCOM and Base**
- **Restructure IPT team**
  - **More PACAF and Elmendorf AFB Personnel**
- **Further define policy and guidance**
  - **Additional IPT meetings / Elmendorf site visit**
  - **Adapt existing Housing Privatization policy**
  - **Hold industry day to get private sector viewpoint**
  - **Work with other services, OSD, and Congress**

Questions / Comments?